

**UNITED STATES DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE**

NTL No. 2002-N02

Effective Date: February 14, 2002

**NOTICE TO LESSEES AND OPERATORS OF FEDERAL OIL AND GAS LEASES
IN THE OUTER CONTINENTAL SHELF**

Revised Guidelines for Royalty Relief Under 30 CFR Part 203

This NTL supersedes NTL 99-04N and amends the guidelines for applying for royalty relief. As we stated in earlier NTLs on royalty relief, we expect to periodically update these guidelines to reflect our experience in processing applications. This update makes these guidelines consistent with the new regulations for discretionary deepwater royalty relief which we published in the Federal Register on January 15, 2002 (67 FR 1862).

Under 30 CFR Part 203, certain lessees may apply to MMS for a suspension of royalty payments or a reduced royalty rate by submitting a complete application. We describe the specific data elements, parameters, reports and computer model or spreadsheets in a complete application in two separate Appendices to this NTL. They also explain the procedures we will follow for evaluating applications and implementing royalty relief. These guidelines are:

Appendix I: GUIDELINES FOR THE APPLICATION, REVIEW, APPROVAL, AND ADMINISTRATION OF THE DEEP WATER ROYALTY RELIEF PROGRAM and
Appendix II: GUIDELINES FOR THE APPLICATION, REVIEW, APPROVAL, AND ADMINISTRATION OF ROYALTY RELIEF FOR END-OF-LIFE LEASES.

Appendix I contains the following changes from the previous version of these guidelines. We are not updating Appendix II at this time.

A. Changes that apply only to leases issued in sales after the year 2000 include:

- Deepwater leases may apply for supplemental royalty relief.
- Relief pertains to the proposed development project rather than to the whole field.
- Royalty suspension applies only to production from reservoirs identified in the application.
- Allowable sunk costs cover only the project discovery well for each lease participating in the development project.
- The minimum suspension volume for a qualifying development project equals the automatic relief amount for leases participating plus 10% of the likely resources (median value of the estimated distribution of known recoverable resources from reservoirs in the application).
- MMS timing for development project evaluations will be up to 150 instead of 180 days.
- Price thresholds above which royalty suspensions do not apply are set for new leases in sale notices rather than regulation.

B. Changes that apply both to pre-Act and post-2000 leases include:

- A discount rate of 10% for the viability test (without royalties or sunk costs) and applicant's

- Allowable sunk costs cover the discovery well for each lease participating in an expansion project.
- The minimum suspension volume for a qualifying expansion project equals 10% of the likely resources (median value of the estimated distribution of known recoverable resources from reservoirs in the application).
- The construction deadline for beginning system fabrication is 18 instead of 12 months.
- The postproduction report is due 120 days instead of 60 days after start of production.
- The correction for overestimating pre-production costs by more than 20% is retention of the smaller of ½ of the original suspension volume or of the most likely estimate of production.
- Pre-conditions no longer apply for reapplication after we withdraw relief or an applicant renounces relief.
- A redetermination is available after introduction of new technology as well as for new geological/geophysical data, 25% lower price, or 20% higher cost estimate.

You should carefully review a copy of the appropriate guidelines if you intend to request royalty relief. They will help you structure your application to expedite our evaluation. The most current version of the guidelines display a date of February 2002.

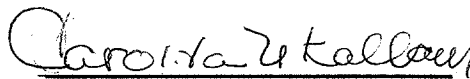
You may request a copy of the guidelines from your regional office. They, along with the computer model or spreadsheet that you will need to prepare an application, are also available on the MMS website at <http://www.mms.gov>.

We also alert you that the new regulations establish a procedure for all leases, not just deepwater ones in the Gulf of Mexico, to request relief outside our established programs when certain conditions hold.

If you have any questions on this NTL, you may contact Marshall Rose (703) 787-1538.

Paperwork Reduction Act of 1995 Statement: Any collection of information that we mention in this NTL and its guidelines provides clarification, description, or interpretation of requirements contained in 30 CFR Part 203. The Office of Management and Budget has approved our collection of information required by these regulations and assigned OMB Control Number 1010-0071. These guidelines do not impose additional information collection requirements that would be subject to the Paperwork Reduction Act of 1995.

Dated: January 24, 2002


Carolita U. Kallaur
Associate Director for
Offshore Minerals Management

Attachments:
Appendix I
Appendix II